

KEY TO OUR RISK MANAGEMENT STRATEGY IS INVESTING IN HIGH-QUALITY COMPANIES . . . ON A SECURITY LEVEL, WE WANT TO UNDERSTAND THE FULL VALUE CHAIN, THE REGULATION AND PRICING ENVIRONMENT, THE COMPETITION, AND INDUSTRY DYNAMICS.



REGINA CHI

Vice-President and Portfolio Manager, Emerging Markets Strategies, AGF Investments Inc.



THE PERFORMERS

× CANADA'S INFLUENTIAL THOUGHT LEADERS ×

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Capturing the growth potential of emerging markets equities requires in-depth security and market analysis and strong risk management, according to Regina Chi, who joined AGF this summer and brings nearly 24 years of international equity experience to the AGF Emerging Markets Fund.

We asked her to discuss her portfolio-management approach, current investment opportunities and the value of emerging markets exposure for institutional investors.

How will you draw on your international experience in your new position at AGF?

I've seen many business cycles and many crises in developed and emerging markets, and I believe this experience, along with my skills as a portfolio manager and an analyst, will greatly enhance AGF's emerging markets strategy. My first exposure to a financial crisis was just a couple of months after I graduated from Columbia University. In December 1994, the Tequila Crisis in Mexico was the first international crisis ignited by capital flight, and it showed that, particularly in emerging markets, a current account deficit coupled with political uncertainty could lead to a deep recession. We saw this again with the Asian Financial Crisis in 1997. Since then, many emerging markets countries have made significant structural reforms so they can avoid repeating past mistakes.

How would you describe your approach to portfolio management?

Quality is the characteristic that's been prevalent in all the portfolios I've run, so the quality bias in AGF's investment process is very much in line with my approach. At AGF, we express quality in terms of economic value added [EVA]. We invest in companies that earn a rate

of return above their cost of capital and that have long-term sustainable competitive advantages. When we look at a stock, we look for a company surrounded by a strong economic moat.

Why are you passionate about investing in emerging markets?

Emerging markets are fascinating because they are constantly evolving, and opportunities are shaped by different fundamentals in different regions, countries and markets. Also, I believe the asset class is misunderstood, and that presents opportunities. When the MSCI Emerging Markets [EM] Index launched in 1988, it had 10 countries and represented less than 1 percent of world-market capitalization, and two countries (Malaysia and Brazil) made up half of the index-market capitalization. Today, it has 24 countries representing 10 percent of world-market capitalization – and the mix has changed. Commodities and material stocks represented 50 percent of the MSCI EM Index in 1988, and 15 percent in 2016. There's been a huge shift to consumer- and consumption-oriented stocks.

Where are you finding attractive investment opportunities?

While we're not focusing on any specific region, we are really excited about certain countries. Brazil is coming out of a very deep recession and, despite political uncertainty, interest rates are coming down, real wages are rising and domestic consumption is picking up. We're also very positive on India, where specific exporters and other companies are generating high EVA. Near term, we're focusing on domestic consumption stocks that can benefit from evolving areas of the market, such as e-commerce and artificial intelligence.

Emerging markets can be volatile – how do you manage risk?

Key to our risk management strategy is investing in high-quality companies as we firmly believe that quality provides superior downside protection and a margin of safety. The valuation of a company is equally important because we want to know what a company is worth in a base, bull and bear case scenario. We also look at portfolio construction; the weight of a stock in the portfolio should reflect its upside-downside potential. On a security level, we want to understand the full value chain, the regulation and pricing environment, the competition, and industry dynamics. On an operational level, AGF has best-in-class risk management tools – from active risk contribution reports to ongoing portfolio monitoring.

How can exposure to emerging markets add value for institutional investors?

Emerging markets investments are a good portfolio diversifier. They are growing at twice the rate of developed markets and trading at a 20% discount on the World index. For example, emerging markets corporate earnings growth will be 20% this year vs. 12.5% for developed markets. In addition, emerging markets are the largest contributor to global growth, so they are taking on a new level of importance in driving global growth. Knowing this, and knowing where valuations are, I believe emerging markets investments deserve a place in a diversified institutional portfolio.



WHAT'S YOUR BEST ADVICE FOR WOMEN IN INVESTING?

Be your own advocate. I encourage women to speak up in a very professional and positive way. Only when you speak up can you move forward and pursue what you want.



WHAT'S THE NICEST THING A CANADIAN HAS DONE TO MAKE YOU FEEL AT HOME HERE?

In my first week here, I was trying to get coffee with my dog on a leash. I wasn't managing it very well – my dog is pretty needy – so a total stranger offered to watch my dog while I went into Starbucks. That would never happen in New York!



WHY DO YOU ENJOY ROCK CLIMBING?

Rock climbing is a family sport; my sons are competitive indoor rock climbers. I like it because it's a whole body workout and an exercise in problem-solving. I was a competitive fencer growing up, and that had the same combination of physical and mental effort.



WHAT ARE YOUR FAVOURITE CHARITABLE CAUSES?

In Florida, I was very involved with Hashtag Lunchbag Orlando. We met the first Saturday of each month, made 200 to 300 sandwiches, packed them with two cookies and a piece of fruit in a lunch bag, and distributed them to the homeless. It was a great way to give back to the community, and it was a great experience for my kids.



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